

State of Connecticut

HOUSE DEMOCRATS
LEGISLATIVE OFFICE BLDG. ROOM 4100
HARTFORD, CONNECTICUT 06106

April 5, 2011

Appropriations Committee

Testimony of Representative Jason Rojas and Representative Mae Flexer
in Support of H.B. No. 6271

An Act Concerning the Budget Reserve Fund

Representative Walker, Senator Harp, and members of the Appropriations Committee, thank you for the opportunity to testify in support of H.B. No. 6271, An Act Concerning the Budget Reserve Fund.

It would be an understatement to say that Connecticut is going through a period of financial difficulty. However, downturns such as the one we are currently experiencing are nothing new and need not be a cause for despair. One only has to review the record of state budget surpluses and deficits over the past twenty years or so to see that economic undulations are inevitable. Rough patches such as these only become a problem if we fail to appropriately prepare for them. Any financial planner with even the barest understanding of their trade will suggest that their clients put money away during good economic times to serve as a hedge against bad ones. Such fiscal foresight allows individuals to persevere through lean years by using resources that have been judiciously put aside during plentiful ones. This is precisely the motivating concept behind Connecticut's Budget Reserve Fund.

Without an effective contingency plan for getting through tough economic times the state is forced to choose between two less than favorable options in order to close budget gaps. Either (1) spending must be reduced by cutting state programs or (2) revenue must be generated by increasing taxes. However, it is during times such as these, when many Connecticut citizens are struggling financially, that these options hurt individuals the most. If we do not wish to cut valuable programs when they are in greatest demand or ask the citizens of CT to make even more sacrifices in the difficult times ahead, it is essential that we have a Budget Reserve Fund with the capacity to weather multi-year recessions. Between 2006 and 2009 our Rainy Day Fund held over one billion dollars in unappropriated surpluses. However, by the following year the fund had been drained to less than ten percent of its maximum allowable balance and currently sits completely exhausted. The Budget Reserve Fund is simply not sufficient in its current form.

Between 1999 and 2010 the state of Connecticut enjoyed budget surpluses totaling \$5.87 billion – so how can we account for our current financial state of affairs? It is my belief that the position we find ourselves in now is at least partially the result of an error in the state's collective consciousness.

The confidence that comes with having "cash in the bank" can generate a sense of economic security – however, this sense is a false one if the reserve fund set aside is not large enough to adequately serve its purpose. As the Budget Reserve Fund nears its maximum allowable balance (currently 10% of General Fund Appropriations by statute) I believe that we as a state have the tendency to perceive the scoring of a sort of financial victory. My concern is that this understanding may at times create the tendency for us to use our resources perhaps too enthusiastically. This is part of the reason that of the \$5.87 billion in state budget surpluses generated over the past decade only \$1.47 billion was saved in the Budget Reserve Fund, while \$2.76 billion was appropriated for one-time expenditures and on-going expenses.

If the cap of the Budget Reserve Fund were to be increased from the 10% General Fund Appropriations limit it currently sits at, to a more sufficient 30%, we could dispel this overconfidence and plan adequately for future economic difficulties. If over the past decade we had done so and appropriated half of what we had on one-time expenditures and on-going expenses, we would have held at our disposal a \$2.85 billion Budget Reserve Fund to help us through the financial difficulties that trouble us presently.

Now seems an appropriate time to make this adjustment for two reasons. First off, to be entirely straightforward, the Budget Reserve Fund will be empty for quite some time. Pursuant to PA 09-3 of the June Special Session, any surplus in FY 2011 through FY 2017 must first be used to redeem FY 2009 Economic Recovery Notes and then to redeem FY 2011 Economic Recovery Revenue Bonds, \$948 million and an expected \$646 million respectively. What this means is that the state of Connecticut will have to generate surpluses of almost \$1.6 billion before the Budget Reserve Fund will see its next deposit. The second and perhaps more compelling reason that this is the right time to increase the Budget Reserve Fund's cap is because, even though the Budget Reserve Fund will be empty for some time, Connecticut is poised to see large surpluses in the years to come. Connecticut will soon be seeing new revenue generating measures put in place in order to address the current budget deficit. Inevitably these measures will result in surpluses down the line and it is important that we have a proper system in place for saving to avoid future difficulties similar to those that we are experiencing now. I applaud Governor Malloy's proposal, very much in line with this one, to increase the Budget Reserve Fund cap and am very happy to have Lieutenant Governor Wyman's support on this bill moving forward.

Once more, thank you Representative Walker, Senator Harp and members of the Appropriations Committee for allowing me to testify in support of this important bill, intended to help Connecticut achieve greater long-term financial stability.

Year	General Fund Appropriations Total	Budget Reserve Fund -- Maximum Allowable Balance -- Actual	Budget Reserve Fund Beginning Balance	Budget Reserve Fund Ending Balance	Budget Reserve Fund -- Maximum Allowable Balance -- If 30% of General Fund Appropriations	Surplus/Deficit
1991	6430	321.5			1929	-817.3
1992	6981.8	349.09			2094.54	110.2
1993	7317.7	365.885			2195.31	197.5
1994	8115.6	405.78			2434.68	55.8
1995	8571.2	428.56			2571.36	60.8
1996	9157.8	457.89			2747.34	250
1997	9049.4	452.47			2714.82	262.6
1998	9495.9	474.795			2848.77	562.2
1999	9972.1	498.605			2991.63	663
2000	12156.7	607.835			3647.01	497.8
2001	11280.8	564.04			3384.24	606.9
2002	12431.4	932.355			3729.42	-817.1
2003	12091.8	1209.18			3627.54	-96.6
2004	12452	1245.2			3735.6	564.9
2005	13226.4	1322.64			3967.92	1003.6
2006	14131.7	1413.17			4239.51	1003.6
2007	14837.2	1483.72			4451.16	1059.5
2008	16314.9	1631.49			4894.47	88.9
2009	17083	1708.3			5124.9	-925.9
2010	17370.3	1737.03			5211.09	449.4
Sum						4779.8

Figures in \$ -millions



Nancy Wyman
LIEUTENANT GOVERNOR
STATE OF CONNECTICUT

March 29, 2011

Representative Mae Flexer
Legislative Office Building, Room 4111
Hartford, CT 06106

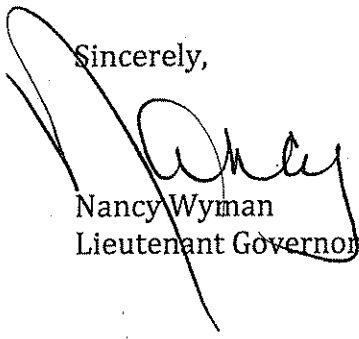
Dear Representative ^{Mae} Flexer:

I would like to congratulate you and Representative Rojas for introducing Bill No 6271, *AAC The Budget Reserve Fund*. As you may know, I have long supported an increase to the rainy day fund and I am pleased that it is also a priority of Governor Malloy's.

The reserve fund is an important tool to be used only in extreme times, and maintaining a healthy balance in the fund is imperative for Connecticut's economic security.

Thank you for taking the initiative on this issue.

Sincerely,


Nancy Wyman
Lieutenant Governor